Thrivent Diversified Income Plus Fund

Q3 2021 Commentary

THYFX (Class S) • September 30, 2021

Management

Stephen D. Lowe, CFA
Chief Investment Strategist
Industry since: 1996
Thrivent since: 1997
Fund since: 2015

Gregory R. Anderson, CFA
Senior Portfolio Manager
Industry since: 1993
Thrivent since: 1997
Fund since: 2018

Theron G. Whitehorn, CFA
Senior Portfolio Manager
Industry since: 2002
Thrivent since: 2018
Fund since: 2021

Executive summary

- The key drivers of performance for the fixed income were high-yield bonds, leveraged loans and preferred securities, offset by convertible securities, securitized assets and alternative fixed income holdings.
- The Fund is underweight equity by approximately 3%-4% versus Morningstar peer group average.

Performance factors

Interest rates rose moderately in the third quarter, with intermediate rates rising the most and longer-term rates down slightly. Rates moved higher late in the quarter in response to inflation and a more hawkish outlook for the Federal Reserve (Fed), with the first rate hike expected at the end of 2022 or early 2023. Credit spreads, a form of risk premium, increased slightly. Total returns were muted across most of fixed income with rates and credit spreads little changed. Yields rose but remain at low levels. Lower-quality segments such as high yield and leveraged loans outperformed with high-quality segments such as Treasuries and investment-grade corporates trailing slightly. Return differentials were compressed, driven by lower rates and tighter credit spreads. The Fund was moderately short duration, which positively impacted relative performance slightly as intermediate rates rose in the quarter.

On the equity side and within allocation effect, the Fund was underweight total equity when the markets were negative for the quarter, resulting in positive contribution. Within domestic equity, an overweight to large-caps aided performance and within international, an underweight to Emerging Markets added relative performance. Additionally, equity manager performance was strong, especially by the domestic large-cap value and mid-cap core managers, along with the international strategies.

Fixed income within Thrivent Diversified Income Plus Fund remains moderately overweight risk. Positioning in the third quarter changed little. High-yield corporate holdings increased offset by decreases in leveraged loans and investment-grade corporates. Also, securitized assets including collateralized loan obligations (CLOs) increased while alternative assets such as closed-end funds and preferred securities decreased. Corporate bonds including high yield, investment-grade bonds and leveraged loans make up about 40% of fixed income. Securitized assets total more than a third of assets, emerging-markets debt about 10% and preferred and convertible securities each comprise about 5% of the fund.

No material position changes for the quarter. Over the trailing 1-year, the Fund repositioned to its new Morningstar category benchmark, US Fund Allocation--15% to 30% Equity, which included a reduction to equity to its current target of 18%. This target is approximately 3%-4% underweight its Morningstar category.

Key drivers of fixed- income performance came from convertible securities, preferred securities, closed-end funds, and business development companies (BDCs). An underweight in Agency MBS (Mortgage-Backed Securities) also contributed to relative performance along with selection in investment-grade corporates and high yield. Interest rate positioning did not have a significant impact on relative performance. An underweight to corporate bonds had a small negative impact on performance.

Over the trailing year equity detracted from relative performance as the Fund was underweight to its composite and new Morningstar benchmarks. Within equity the Fund benefited from an overweight to domestic versus international, and within international an overweight to developed versus Emerging Markets also aided relative performance. Additionally, equity manager performance has been strong, especially by the large-cap value manager, along with the mid and small-cap managers.

Portfolio outlook

We expect solid economic growth and rates to increase further by the end of the year as the economy further normalizes as the surge in Delta variant COVID-19 cases recedes. Monetary and fiscal policy should remain supportive. We also expect higher than normal inflation to persist into 2022. Additionally, we expect the Fed to formally announce the start of tapering of asset purchases late this year and start raising rates at the end of 2022 or early 2023. Market reaction to the Fed should remain contained unless the timeline for hikes is accelerated. We expect rates to rise through the year and will maintain short duration positioning until it appears rates have topped. Credit spreads appear rich with levels well below average. We expect spreads to be rangebound to moderately wider. Future fixed income returns will come mostly from yield versus price appreciation.

The Fund is underweight corporates including high yield and leveraged loans and overweight convertible and preferred securities. Management will continue to maintain a risk overweight, but less so given relatively expensive valuation. We favor high yield and leveraged loans over investment-grade credit but expect periodic episodes of volatility as rich valuations make credit more susceptible to backups. Securitized assets including CLOs offer attractive valuations relative to corporates. We expect to maintain a strategic overweight to credit but will remain tactical depending on valuation. We also expect to remain overweight alternative assets including preferred securities, closed-end funds and convertibles, but intend to trim risk if markets continue to richen. We would use any material pullback to add risk.

We remain underweight Equity vs. Fixed Income by approximately 3%-4% and consistent with the second quarter, we favor domestic over international. Within international, we favor developed over Emerging Markets. In aggregate the funds are overweight more defensive areas of the market including growth, momentum and technology.

Thrivent Diversified Income Plus Fund performance

Class S shares | For the period ending September 30, 2021

Average annualized returns (%) Periods less than one year are not annualized.	3 months	YTD	1 year	3 years	5 years	10 years
Thrivent Diversified Income Plus Fund Class S share; Expense ratio: 0.72%	0.27	4.68	11.73	6.28	6.20	7.19
Morningstar Allocation—15% to 30% Equity Category Average[1]	-0.12	3.02	8.22	5.52	4.50	4.58
Bloomberg Barclays U.S. Aggregate Bond Index[2]	0.05	-1.55	-0.90	5.36	2.94	3.01

Financial professionals: Contact us at sales@thriventfunds.com or call 800-521-5308

Any indexes shown are unmanaged and do not reflect the typical costs of investing. Investors cannot invest directly in an index.

[1]The Morningstar average represents the average total return annualized when greater than one year for all reported funds in the category. Morningstar averages do not include sales charges/fees. If included, returns would have been lower.

[2]Bloomberg Barclays US Aggregate Bond Index measures the performance of U.S. investment grade bonds.

Risks: The Fund's value is influenced by a number of factors, including the performance of the broader market, the effectiveness of the Adviser's allocation strategy, and risks specific to the Fund's asset classes, investment styles, and issuers. Debt securities are subject to risks such as declining prices during periods of rising interest rates and credit risk, or the risk that an issuer not pay its debt. When interest rates fall, certain obligations will be paid off more quickly and proceeds may have to be invested in securities with lower yields. Leveraged loans, preferred securities, sovereign debt, and mortgage-related and other asset-backed securities are subject to additional risks. Foreign investments involve additional risks, such as currency fluctuations and political, economic and market instability, which may be magnified for investments in emerging markets. The London Interbank Offered Rate (LIBOR) is being phased out, which brings uncertainty to instruments tied to it. Markets may also be impacted by domestic or global events, including public health threats, terrorism, natural disasters or similar events. The Fund invests in other funds managed by the Adviser or an affiliate and in directly-held equity and debt instruments. The Fund is dependent upon the performance of the other funds and is subject to the risks and additional fees and expenses of the other funds. The Adviser's assessment of investments may prove incorrect, resulting in losses or poor performance. The Adviser is also subject to actual or potential conflicts of interest. The use of quantitative investing techniques and derivatives such as futures also involve risks. The Fund may engage in active and frequent trading of portfolio securities, which may result in higher transaction costs and higher taxes. When bond inventories are low in relation to the market size, there is the potential for decreased liquidity and increased price volatility. These and other risks are described in the prospectus.

This commentary may refer to specific securities which the Fund(s) may own. This information should not be considered investment advice or a recommendation of any particular security, strategy or product. A complete listing of the holdings for each of the Thrivent Mutual Funds is available on thriventfunds.com.

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Investing involves risks, including the possible loss of principal. The prospectus and summary prospectus contain more complete information on the investment objectives, risks, charges and expenses of the fund, and other information, which investors should read and consider carefully before investing. Prospectuses and summary prospectuses are available at thriventfunds.com or by calling 800-847-4836.

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